



H. H. The Maharaja of Rewa.

"FOR YOUNG PRINCES."

A BRIEF INTRODUCTION  
TO  
PUBLIC FINANCE

BY

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COMPILER OF "SELECTIONS ON EFFICIENCY  
AS A RULER."

- PART I—Introductory.  
PART II—Public Expenditure.  
PART III—Public Income.  
PART IV—Public Debt.  
PART V—Budget.

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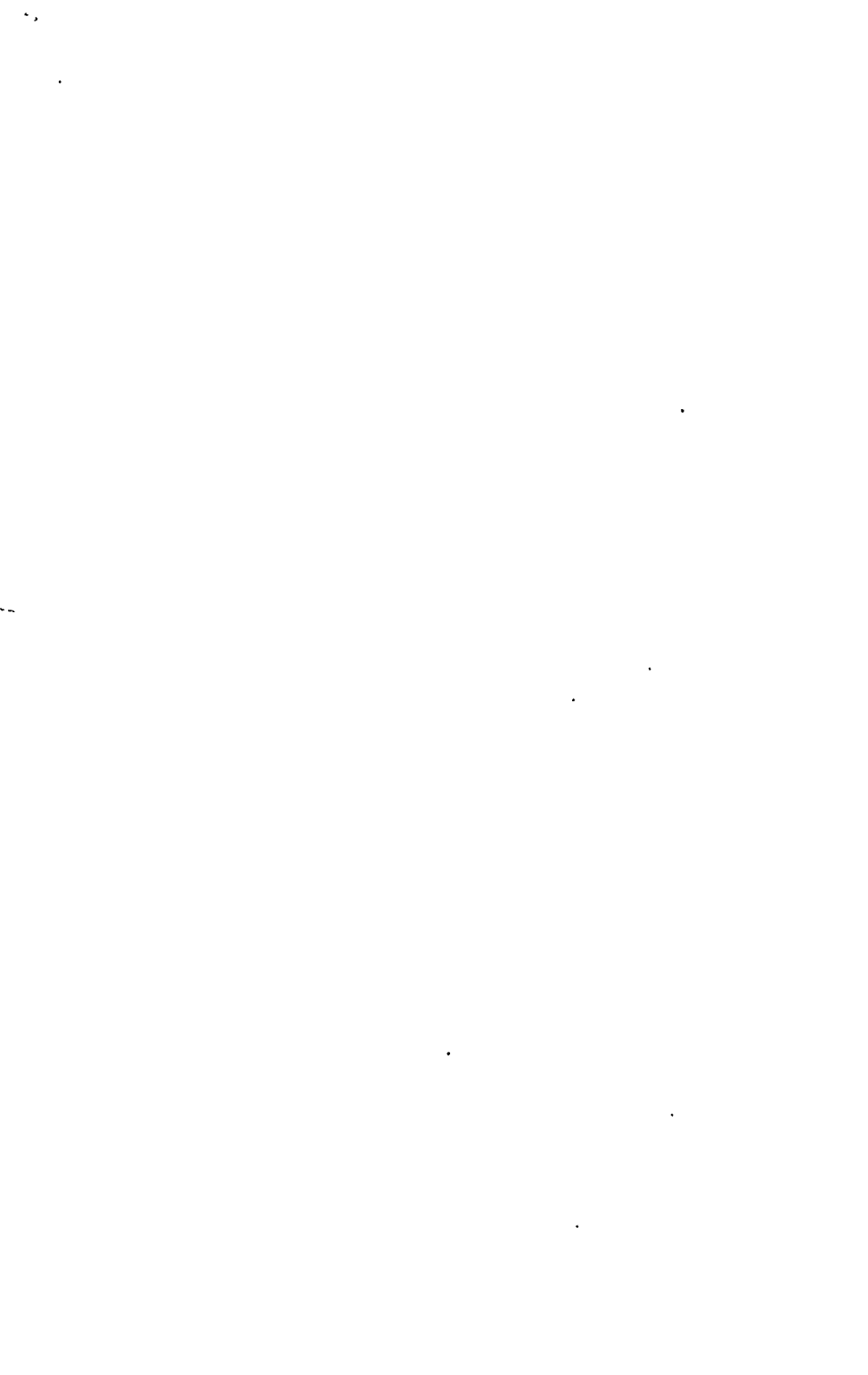
The Manager,

"FOR YOUNG PRINCES" SERIES,

Rewa, C. I.



Dedicated  
With profound respects and humble  
duties  
to  
His Highness  
Samrajya Maharaja Dhiraj  
Shri Maharaja Gulab Singhju Deva  
Bahadur  
Maharaja of Rewa.



## Foreword.

Last year was published my compilation "Selections for Young Princes on Efficiency as a Ruler."

Young Princes for whom the book was evidently meant and others to whom the book appeared interesting appreciated it and gave me encouragement to make a further effort in the interests of Young Princes.

The present volume is the result. It deals with Public Finance and is an amplification of the lectures on Taxation, Account and Audit I delivered to His Highness the Maharaja of Rewa in 1922.

When the lectures were originally prepared there was no idea of ever printing and publishing them and therefore references were not preserved and the various

books from which extracts have been taken and adaptations have been made cannot now without great difficulty be quoted. I therefore render apology for this omission in this book. A list of books consulted is however given at the end to facilitate references.

I have great faith in the future of educated Princes and in the vast amount of benefit which results to a country by their taking interest in the literature on various branches of Administration. If this book would help them in any way and encourages them to study standard books I would deem my labours amply rewarded.

Any criticism and suggestions for amendment by the readers would be thankfully received.

I owe a debt of gratitude to Major E. J. D. Colvin, Adviser to His Highness

the Maharaja Sahib Bahadur of Rewa, political agent in Baghelkhand and acting Regent Rewa State (1921-22) for very kindly revising the book and supplying it with a preface. I am also indebted to some of my friends for bringing the book up-to-date and for making various suggestions.

KESARI SINGH.

REWA, C. I.

The 27th September, 1925.

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## Preface.

This book is the second volume of the series, which Mr. Kesari Singh is preparing for Young Princes. It deals very clearly and concisely with the all important and very difficult subject of Finance. It is written in simple language, and is free from unnecessary detail and superfluous technicalities. Besides its value to young Princes themselves, the book should form very useful text book, valuable both to those charged with the responsible burden of imparting education to Young Princes, and to students of financial administration generally.

Mr. Kesari Singh has himself had experience as a tutor to a Prince, and in various high administrative appointments in Indian States, and writes, therefore, "as one having authority."

As I have had the pleasure of having Mr. Kesari Singh associated with me, during a considerable portion of his career in both these capacities I have read this book with great interest. It will, I feel sure, supply a long felt need.

E. J. D. COLVIN, Major, I. A.,  
Adviser to H. H. Maharaja of Rewa.

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## PART I.

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### Introductory.

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#### IMPORTANCE OF THE SUBJECT.

ONE of the most important duties of a Ruling Prince is to keep the Finances of his State in order, in other words, to keep the income and expenditure adjusted with each other on certain principles. Actually there can be no sound Government unless the Financial position is sound. This dictum can easily be understood when one takes into consideration the serious results, which bad Finance entails.

When the Finances of a Government are unregulated, even a good policy of Administration becomes nullified. The

population groans under the load of taxation as no return can substantially be made to the public for the various amounts taken from them. There is a loss of confidence on the part of the outside world in the Government. It, therefore, would have no credit and is likely at any moment to come into difficulties of unknown magnitude. Further, there can be no reasonable prospect of bettering the existing conditions unless finances are improved.

It is manifest, therefore, that it is of the greatest importance that Young Princes should master the principles of Finance.

## Definition of Finance.

Finance may be defined as a science, which investigates and treats of monetary transactions. In practice it devolves itself into consideration and regulation of Income

and Expenditure. It is divided into two parts :

Private Finance, and  
Public Finance,

Private Finance deals with Income and Expenditure of individuals, and we are not concerned with it here.

Public Finance is the name given to the science dealing with the Finance of a Government. It regulates the raising and spending of Government funds.

### Systems of Public Finance.

There are two systems of public finance: the old and the new. The old system is the system of pre-determined Income, and the new system is of pre-determined Expenditure.

In the first system the income is more or less a fixed quantity and is subject to

little variations. The Finance Department has to ascertain what income is likely to be available, and then to adjust the expenditure under the various heads of the Budget in such a way as to get the greatest advantage from, and make the best use of, the funds that are available.

In the new system it is the expenditure, which is determined beforehand, and the income is made to adjust itself to the expenditure. The Budget of expenditure is prepared on the basis of the needs, which are considered to be worthy of being provided for. Every such expenditure has to be gone into without reference to the question whether there are funds available to meet it or not. It is the business of the Finance Department to find out ways and means of raising the Revenues required to meet such expenditure.

There is the income from land and other properties belonging to the Government and from Commercial undertakings. An estimate as correct as possible is made of the yield of these and similar other settled sources of Revenue. Rates of certain existing taxes are then varied, and sometimes extra taxes are proposed in order to raise the income as high as is required to meet the necessary expenditure. If, however, there is some very extraordinary and heavy item of expenditure to provide for, which it is impossible to meet by variation in taxation, or by extra taxation, it has to be met from the State Treasure chest or by raising a loan.

In short the effort is really to find out an easy path, by which to reach a certain goal, viz, to find money in order to meet the expenditure, which has been deter-

mined to be made. The wisdom of the Finance Department lies in discovering the least onerous and the least costly method of raising the required funds. In olden times, Indian States generally followed the first system i.e. they adjusted their expenditure to their income (except perhaps in time of war.) The Government of India also followed this system at the time when they inherited the Moghal Empire. Most of the Indian States yet follow the same system. They endeavour to make the total income as large as possible and then set out their expenditure so as to keep it within the income expected.

It is safe to assume that the latter system of Finance has come into existence with the growth of democratic institutions. The Government needs money in order to carry out its various functions, and where

democratic institutions come into existence not only do the people claim that because they contribute towards the expenses of the Government they should have a voice in sanctioning the expenditure, but they make the financial problems more and more important by adding to the functions of the Government. Industrial, Commercial, and Social organisations become increasingly complex, and many a time additions are also made to them. One consequence of this is that not only is a better and greater organization required to keep the Government running smoothly, but increase in the scope of Government functions naturally and certainly means increase in expenditure. Greater financial needs, therefore, come into existence and more and more money is required to meet the expenses. It thus follows that when the people want



their Government to do more work for them they should find more money to keep it going. It becomes necessary in the circumstances to give up the old and simple system of limiting the Government activities according to the income, and to take a more elaborate system of predetermining the expenditure and then raising the income upto it.

In all progressive countries the growth of public expenditure is a striking accompaniment of the growth in Government activities due to the rise of democratic institutions. The more democratic therefore, a Government becomes, the more are the people required to contribute towards Government expenses. The result is that a good deal of expenditure is made in order to meet the wishes of the people, and possibly to return to them in some altered

shape what has been taken from them and make the life of the society more useful and convenient.

So it is plain now that in modern States it is the expenditure which is determined first.\*

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\* A note of warning should however be sounded here. In States where the modern system of pre-determined expenditure is desired to be established, the change if and when it is introduced must be gradual and cautious. It is not always easy in Indian States to tap new sources of income and to increase taxation to meet the increased needs of expenditure is a task which requires a degree of knowledge and experience which is not always forthcoming. It is obvious therefore that estimates of income should be conservative, and that rigid economy should be exercised on the expenditure side in all non essential matters.



## PART II.

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### Public Expenditure.

**P**UBLIC expenditure is required to be made in order to meet the requirements of a Government just in the way private expenditure is required to satisfy the needs of an individual, but while private expenditure is determined by the individual, public expenditure is to a great extent determined by historical conditions and previous legislation. Various attempts have been made to classify it, but one, which will suffice for our present purpose is described below:—

#### Classification

Public expenditure is divided into two classes:—

1. Primary Expenditure and
2. Secondary Expenditure.

Primary expenditure is that expenditure, which the Government is obliged, before everything else, to undertake.

Secondary expenditure is that expenditure, which is no doubt necessary, but not as absolutely essential as the first.

### Primary Expenditure.

Primary expenditure embraces three well-known heads :—

1. Means of defence
2. Civil Administration
3. Interest on public debt.

### Means of Defence.

The foremost duty of every Government is to arrange its self-preservation, and this is only possible by providing for the means of defence. The means of defence are very different in different parts

of society, and grow gradually more and more expensive as the society advances. It is now absolutely essential that specially trained sections of the population be set apart for Military, Naval and Air service and pay for them must be provided on a higher scale of wages than a similar body of labourers would command in a market. Moreover, science finds every day new material for conducting warfare, and thus the cost of equipment is also increasing every day. The instinct of self-preservation requires that the means of defence should be kept upto date, and a policy of equipping the army with modern arms and supplies is necessary to be adopted even though its adoption may result in taxing the resources of the Government heavily. A well equipped army means security from an aggressive neighbour. It is therefore incumbent on all

Governments to provide for the means of defence as a prime necessity.

In India this argument mostly applies to the British Indian Government, as the Indian States are guaranteed their security from outside invasion. Such being the case, the provision for an army in their budgets becomes comparatively less important. The necessity in case of Indian States is to maintain an army, which can help the Police and maintain the dignity of the State. This may no doubt mean an army of inferior strength, but nevertheless it should be well trained and equipped to a degree if it is to be at all worthy of the name.

The Military organisation of the Government of India consists of a regular army of Indian sepoys and British soldiers. This force is divided into a number of commands, each under a General Officer Command-

ing-in-Chief. Each Command is divided into a number of districts.

Besides the regular army there are Volunteers, who are men engaged in Civil life, but, who receive Military training, and can be called upon in times of danger.

Moreover, many Indian States maintain small armies assisted by the advice of British Officers, these troops being known as Indian State Troops. Then, there is the Indian Reserve consisting of Indian sepoy and Officers, who have retired from Service but can be called out when required. In addition to these there is a force in the North Western Frontier Province called the Militia and in Burma the Military Police. To all these forces is now added the Indian Territorial Force composed of the Civil population.

The whole Indian army is under the



Commander-in-Chief\* who is helped by a Military Council. Various departments of army work are managed by different Officers under him. The Chief of the Staff organises and trains the army for active service and attends to its distribution. The Quarter Master General deals with the housing arrangements for troops, transport of men and materials, veterinary and supply services. The Adjutant-General looks after recruiting and discipline, and the Military Secretary deals with appointments, transfers, promotions, etc, while the Chief Medical Officer advises in all matters connected with the health and sanitary arrangements of the troops.

On the sea, India is defended by the British Navy, and by what is termed the

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\* The Commander-in-Chief is also the extraordinary member of the Viceroy's executive council.

Royal Indian Marine. The latter consists of a few ships on the Indian coast and is placed under a Director.

The Royal Indian Air Force is in the making and more than a mere mention of it is not possible at present.

## Civil Administration

Now let us consider the Civil Administration. The head of the Government naturally comes first.

### The Heads of the Government.

No matter what the form of the Government the sovereign must be supported, and he, being the head of the State, is frequently called upon to discharge ornamental functions, and has to hold a position higher than the wealthiest of his subjects. In Monarchical Governments traditional

sentiments demand that the head of the Government should hold a social position of great prominence, and provision should be made for lavish (but not unreasonably high) expenditure, which would enable him to maintain his position and discharge his functions.

## Departments.

After the sovereign come the various branches of the executive, legislative and Judicial departments with their quota of officers, clerks, servants etc. and they should be provided for.

## The Executive Functions.

The executive functions of the Government of India are carried on partly in England and partly in India.

In England there is the Secretary of

State for India and he has great powers over the Government of India. He has a large office known as the India Office, and is helped by a Council. There is, besides, a High Commissioner for India, who is a sort of Agent of the Indian Government in England.

*In India the Governor General in Council* is the executive head of the Government. The work is divided into a number of departments which are named below :—

1. The Foreign and Political Department.
2. The Home Department.
3. The Department of Education, Health and Lands.
4. The Legislative Department.
5. The Finance Department.
6. The Department of Railways and Commerce.

## 7. The Department of Industries and Labour.

At the head of each Department is a member, and below him are the Secretary, the Under and Assistant Secretaries and the ordinary clerical establishments.

Under the Central Government there are Provincial Governments. The British India is divided into provinces and each province is placed under a Governor in Council.

The domain of the Provincial Governments has been divided into two fields, one of which is made over to ministers chosen by the Governor from amongst the elected members of the provincial legislature, while the other remains under the administration of the Governor and the members of his Executive Council.

At the head-quarters of each province are the Government offices generally known as the Secretariat. The work of the administration is divided among certain departments, over each of which presides a Secretary, who is responsible either to a member of Council or to a minister. In many departments there are also Under-Secretaries. Below them are members of the subordinate and clerical staff.

Each province is divided into a number of districts and at the head of each District there is an officer called the Collector (or the Deputy Commissioner).

Under the District Officer are Assistant Collectors, Deputy Collectors, Tehsildars and the Assistant Tehsildars and the clerical staff under them.

Except in Madras, there are in all other Provinces Commissioners also who are in

charge of a Division, comprising of a number of districts and who hold position intermediate between the Collectors and the head-quarters staff.

## The Legislative Functions.

The Legislative work is being carried on in the Central and Provincial Legislatures. The Central Legislative body consists of two houses—the Legislative Assembly and the Council of State and in each Province there is a Legislative Council.

The business of these bodies is to make laws for the country without which the servants of the State as well as people will have no guidance, and administration would become a very difficult affair.

## The Judicial Functions.

It is a prime necessity for a Government to maintain peace in the country and thereby

give internal security to the subjects. Where people live together differences are sure to rise, and it is the duty of a State to safeguard each member of its society from the injustice or oppression of every other member of it.

## Police.

The Government therefore ought to have a Police Force in hand to suppress disorder and bring criminals to justice. The Police Force should be efficient and able to fulfil its object. It should have a sufficient number of men and officers in proportion to the area of the country and to the population of the same.

The organisation of Police in India consists of an Inspector-General of Police for each Province and under him the District Superintendents of Police in charge of each



District. There are Assistant Superintendents of Police in all important places in the Districts, and below them are the Inspectors, Sub-Inspectors, Head Constables and Constables.

Besides the ordinary town and village Police, there are in India the Military Police in unsettled places inhabited by wild tribes, and Railway Police meant for Police work on railways.

## Law Courts.

But a mere physical protection of life, person and property of the people by the help of the Police force cannot be all sufficient. The next great requisite of a good Government is a proper machinery for the administration of justice i. e., a series of law Courts with powers graduated for admitting Civil and Criminal cases and deciding justly

all the numerous disputes and differences, which certainly rise amongst the subjects. A pure administration of justice is essential to the well-being of a State. The Courts in India are of two kinds—Criminal and Civil.

In every district there is a Judge, who is known as a District and Sessions Judge. He does both Civil and Criminal work of his District, and under him are the Criminal and Civil courts in every town. The Criminal Courts are under Magistrates, who are of three grades. The Civil Courts are under Sub-Judges, who are of two grades. In large towns there are also Small Causes Courts that try petty Civil cases.

Over all the Courts—Criminal and Civil—there is in each Province a High Court consisting of a number of Judges with a Chief Justice at the head of all of them. In some smaller Provinces the work of the

High Court is being done by the Chief Courts, and in still less important Provinces the Judicial Commissioners.

## Jails.

When the Police and the Courts have dealt with the criminal, or defaulter, he is handed over to the Jailer, and it is in Jail that he gets the punishment to which he is sentenced, in order to prevent him from being dangerous to the society or giving vent to his nefarious activities again, or to punish him for his default.

When a man is sent to Jail he is, besides being confined there, engaged and trained in some useful work.

Boys of under 18 years of age are sent to Reformatories, and are trained there on some useful industry.

In India there is a Jail in every District

in charge of the Civil Surgeon and all jails in a Province are under the Officer known as the Inspector-General of Prisons.

It will thus be seen that along with the means of defence provision for carrying on Civil Administration is a matter of prime necessity.

### Interest on Public Debt.

States, like private individuals, have sometimes to incur abnormal and extraordinarily heavy expenditure; and if a Government fails to meet this from ordinary Revenues it stands in the need of borrowing, and a public loan is then floated. Borrowing, no doubt, helps the situation, but it is to be definitely understood that a loan is not a short cut to prosperity. Every good Government should therefore resort to a loan only in circumstances which cannot be avoided.

But when once a loan has been taken, it is a first charge on the Revenues of a State to pay interest on it, and, therefore, such payment has to be classified as an expenditure of prime necessity.

The Government of India took big loans for the development of railways and irrigation works, and, lately, in order to meet the needs of War.

## Secondary Expenditure.

When the Primary Expenditure has been set out it may safely be said that all other expenditure, of whatever sort, is to be included as Secondary Expenditure. It may be classified as :—

1. Expenditure for social welfare, for example, on Education, Public Health, Famine Relief etc.

2. Expenditure on Commercial undertakings, for example, on Railways, Irrigation, Canals, Post and telegraph etc.
3. Miscellaneous expenditure, under which all other items of expenditure may be included.

These items will now be considered in some detail.

## Social Welfare.

Expenditure under this head, though technically distinguishable from primary expenditure, is very near to it and can be taken to be almost equal to it. The foremost is Education.

## Education.

The term education should be understood in a very wide sense, and should be

taken to include not only the imparting of knowledge but the development of character and of the human faculties and activities in the best way possible. Money spent on education tends to make the people more intelligent and trustworthy. The more they are educated the less are they liable to the delusions of false enthusiasm and superstition. They become more orderly and peaceful. It may therefore be taken as an axiom that expenditure made in providing sound education for the people is justified by the higher standard of living that prevails amongst the educated and the greater efficiency of the work that they can perform. Modern Governments, therefore, realise that a high level of literacy and therefore of intelligence amongst the people is a very desirable object to aim at.

In India there are three grades of

educational institutions. The first grade is the Vernacular Primary Schools, where children are taught how to read and write and a little arithmetic in the language of the province. The next grade is the Secondary Schools where, besides other things, they learn English and prepare for Matriculation or School Leaving Examination. The third grade is the Colleges where under the control of the various Universities higher education is imparted.

It may be mentioned here that besides these Schools and Colleges for general education, there are Schools and Colleges for imparting special kinds of education also, e. g., Industrial Schools for, say, carpentry, shoe-making, tailoring etc., Technical Institutes for engineering, metal working etc., Schools of Art for drawing, painting etc., Agricultural and Veterinary



Institutes, Commercial Schools and Colleges, Teachers Training Colleges and Law Schools and Colleges.

In each Province there is an Education Department under the Director of Public Instruction. Under him are Inspectors and Deputy Inspectors of Schools, and over him is the Minister of Education who guides the policy in education.

## Public Health.

The department of Public Health is concerned with the physical welfare of the people just as the department of education is with the intellectual welfare, and it is no less important. Where people generally live close to each other there come into existence many undesirable conditions, which they can not individually remedy. Moreover, some of them from time to time fall ill and

require the services of people trained in medicine and surgery, and besides this, epidemics break out now and again which require activity on behalf of the Government in meeting them. It is therefore necessary for Governments to have a department of Public Health, which may be taken to have three branches

1. Sanitation.

The business of this department is to prevent diseases. It has to find out the causes of disease. Much disease is due to dirt. It has therefore to remove dirt and refuse from the streets, to maintain general cleanliness, to keep the drains in good order, to arrange for the abundant supply of fresh air and so forth. One measure of the greatest importance is the provision of a sufficient and pure supply of water for daily use.

2. Vaccination, inoculation, and similar other measures to combat special diseases, are points of no less importance and
3. Hospitals and dispensaries, where sick persons may easily obtain medical advice, medical treatment and requisite medicines.

Every District in India has a hospital at its head quarters with a Civil Surgeon in charge of it. Under him are doctors and nurses, who look after the patients and give medicines. In smaller towns of the district there are smaller hospitals called dispensaries under Assistant Surgeons and Sub-Assistant Surgeons. For women there are special hospitals.

The work of the Medical Department is under a Surgeon-General in some provinces and under an Inspector-General of Civil

Hospitals in others, and the whole medical service is under a Director-General.

The Sanitary Department in each province is under a Sanitary Commissioner or a Director of Public Health. In towns and districts the sanitary duties are performed by Civil Surgeons and Assistant Surgeons.

### Famine Relief.

Famine is of such frequent occurrence in India that no Government can afford to ignore provision against it even in good years. When it occurs, it at once becomes apparent to the people and the Government that trouble is in store for them. Society is entirely disorganised and every kind of horror suddenly prevails in the land. The normal course is so revolutionised that people starve in large numbers and unless the Government is ready beforehand to

meet it, it is as helpless as the people themselves. A provision is therefore necessary every year in the Budget which may be used to meet, as far as possible, the famine, if it occurs, or allowed to grow into a fund against the famine if it does not. This reserve made in prosperous times is of great help in times of famine, and no government in India can afford to be without it.

The Government of India used to set aside every year 15 crores and this amount was used either for reduction of the debt or for the prevention of debt which would otherwise have been incurred through loans for railway or irrigation purposes. Under the Act of 1919 famine relief has been made a charge against the provincial Governments.

The three important subjects under social welfare have now been dealt with,

and leaving aside other minor points we may now pass on to expenditure on Commercial undertakings.

## Commercial Undertakings.

A Government may sometimes take in hand commercial business. When a work cannot be well and efficiently done by private enterprise the Government generally does it. Moreover, there are some works of great public utility and no civilised Government can afford to be without them even though sometimes they bring in no monetary profit. Convenience to the Public is benefit enough to justify expenditure thereon, and it has always been the policy of governments to undertake Post and Telegraph services and to build Railways, and Irrigation works for the sake of the *advantages that arise from their existence*

irrespective of the fact whether they bring in any profit or not.

## Posts and Telegraphs.

The control of the Posts and Telegraphs of India is vested in a Officer designated Director—General of Posts and Telegraphs who works in subordination to the Government of India in the Department of Industries and Labour.

On the Postal side, he is assisted in the work of direction by a number of Deputy Directors General. Below him are Postmasters-General for each Postal Circle which is subdivided into a number of Postal Divisions, each Division being in charge of a Superintendent of Post Offices who has under him Inspectors, Postmasters and other staff.

The branch of the Post office which

deals with the sorting and disposal of Mails during transit by Railways or inland steamers is called the Railway Mail Service and is controlled by officers designated Deputy Postmasters-General, Railway Mail Service.

On the Telegraph side, the Director-General is assisted by a Deputy Director-General and Assistant Directors-General. The Postmasters General control the Telegraph Traffic and they are assisted by Deputy Post Masters General and a suitable staff of attached officers.

## Railways

Railway construction in India began with concessions granted to Companies in England. A minimum return on the Capital invested was guaranteed by the Government and a free grant of all land needed was made.



The guarantee caused loss to the Government and so the Government purchased these lines in due course. Moreover the Government opened new lines itself.

But the Government Railways were necessarily slow to build. Their progress depended upon the allotment that could be made for them with reference to all other needs of the Country. Private enterprise was therefore again called in and the Companies, which came forward, were assisted.

The control of Railways is now vested in a Board, consisting of three Members. Each Railway System is under an Agent, who has under him a Traffic Manager, who holds charge of the traffic, a Chief Engineer, who is responsible for the maintenance of ways and works; a Locomotive

Superintendent, who is in charge of the locomotives and the Mechanical Department; a Store-keeper, who arranges for the supply and care of all stores.

These Officers have District officers under them, who are responsible for the departments in their respective charges.

## Irrigation.

Means of Irrigation in India are of three kinds : wells, tanks, and Canals. The first are entirely managed by private individuals, and the second are, mostly constructed by individuals and partly by Government agency, while the last, i. e. canals, are built by the Government only. Canals afford protection against famine and bring large areas under cultivation, which, but for them, would remain waste. They have, therefore, been recognised as a measure of great

importance, and the Government many a time takes loans in order to build canals\*.

## Miscellaneous Expenditure.

The last item of Secondary Expenditure is Miscellaneous expenditure, under which all other items of expenditure may be included.

In this way, when all expenditure necessary to be incurred is laid out, the Finance Department has to find ways and means to raise income to meet it.

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\*It takes loans to build Railways also.

## PART III.

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**Public Revenues.****CLASSIFICATION**

The income of a State is generally made up of different elements which can roughly be classified as follows :

1. Income from property, e. g. lands and forests.
2. Income from Commercial undertakings, e. g. canals and railways, posts and telegraphs.
3. Income from taxation.
4. Income from Miscellaneous sources.

Income from Property, Commercial undertakings, and Miscellaneous sources, are more or less invariable sources of revenue. It is mostly permanent and generally fixed. If there are any variations

in amount they are small and hence negligible.

So when the whole income arising from these sources and accustomed taxes is not enough to meet the expenditure, which, as has been said above, is pre-determined, variations in existing taxes and sometimes new taxes are proposed, and thus income is raised to a figure which would meet the needs. It may be mentioned here that a moderate surplus is safe and necessary and should always be aimed at. A finely balanced budget may sometimes fail on account of calculations, however nicely and scientifically made, turning out wrong. Every good Government therefore aims at a little surplus. Now let us take the various sources of revenue as classified above, and deal with them one by one.

## Income from Property.

### LAND REVENUE

Income from lands is called Land Revenue. Land Revenue is the largest and by far the most important source of income to the Government in India, and of Indian States, and there are two systems of Land Revenue which are briefly noticed here.

### Zamindari System

According to this system whole villages are settled with one Land-lord, or group of Land-lords, who are partners. The Government takes a fixed share from the land-lord who collects rent from the cultivators.

In some places this share of Government has been fixed for all times and no change has been made in the demand of the Government. This system prevails in

most parts of Bengal and in some parts of other Provinces, and is known as the Permanent Settlement.

In other places the Government's share is fixed for a long time, say, twenty or thirty years, and when the period once fixed is over, the demand of the Government is revised and this system prevails in the United Provinces, the Central Provinces, Punjab and some other small places, and is known as the Temporary Settlement.

## Rayatwari System.

According to this each cultivator has to pay his rent direct to the Government. There are no Zamindars between the cultivators and the Government to collect rent from the one and pay to the other. Each small cultivator is a land-holder and pays a fixed share to the Government. This system

prevails in the Bombay Presidency and in some parts of Madras.

## Forest Revenue.

A careful organisation of forests affords an annual income to the Government from the sale of timber, and some minor produce of spontaneous growth. Forests are therefore divided into three classes :—

1. Reserved Forests
2. Protected Forests and
3. Public Forests.

The Reserved Forests are intended to be permanently maintained for the supply of timber, fuel and other produce. The rules applying to their use are naturally strict.

The Protected Forests may be either in a state of transition to Reserved Forests or intended to remain permanently as such. The rules in these are less strict and people



round about are allowed to exercise certain rights in them.

The Public Forests are really given over for the use of the public and there are practically very few restrictions to the people.

## Income from Commercial Undertakings.

It has already been said that the Government undertakes some commercial works and an income arises from them. But it is not always for income that they are taken up. The convenience that they afford, and the advantages that arise to the public, are such a great benefit that they are undertaken even though there may be little or no profit from them ; but there is nearly always some income to the State

from these sources and many a time it is substantial.

### Miscellaneous Income.

The income from taxation is left to be taken up after the income from Miscellaneous sources is considered as the subject is a highly technical one, and will require fuller treatment. Income from Miscellaneous sources includes all items, which are not included in taxation and the two big sources of income discussed above. The one point which deserves mention herein is the income arising from tributes paid by subordinate Governments or Zamindars.

The Government of India receives from most of the Indian States payment in money as tribute : and the Indian States on their part receive certain payments from certain classes of landholders and others in their States.

## Income from Taxation.

Taxation is a necessary contribution made to Government for the purpose of making up the deficit in the Revenue in order to meet the expenditure essential to carrying out its functions. There is an increase in the taxations when the expenses are greater and a decrease when they are less. But it should be remembered that the increase or decrease does not always depend on the actual economic necessities only. There are also a number of social and political considerations, which cannot be neglected. It may safely be laid down that there is no country now in the world, in which the whole system of taxation is one logically worked out from first principles. All the same there are rules to regulate the imposition and increase or decrease in

taxation, and four of them known as Adam Smith's Canons of taxation are given below :

## (1) The Canon of Economy.

Every tax ought to be so contrived as to take out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the State.

Economy in taxation has more than one significance. The purely economical tax is that, which is most easily assessed and collected, and at the same time is least harmful to those who pay it. Some taxes may be too costly to collect, that is, the total yield of the tax may be small as compared with the expenses that the Government is put to in preventing evasion of payment. Other taxes may not be costly to collect, but may give rise to political discontent of such a nature as would increase

the difficulties of the Government, and necessitate a greater expenditure on the services connected with Justice and Police. Such taxes cannot be said to be economical.

There may be other taxes that may not do any of these things but yet may not be economical. They might be incidentally benefitting some industries at the expense of others, and if the loss to the injured trade be greater than the gain to the protected one the tax is mischievous in its nature and so uneconomical.

By the account given above it would be clear that a tax should be easily assessed and collected, and should take from pockets of the people as little above what goes to the public purse as possible.

## (2) The Canon of Equity.

The subjects of every State ought to contribute towards the support of the

Government as nearly as possible, in proportion to their respective abilities ; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.

This principle of equity actually means equality of sacrifice. No tax is a just tax unless it leaves individuals in the same relative position in which it found them. This dictum holds good only when a tax is looked at in conjunction with the rest of the system, of which it forms a part. Any particular tax taken by itself and in isolation from others will probably fail to stand the test. Each of the taxes forming the system may apparently be unjust : one tax may fall heavily on one section of the population while another tax may fall heavily on another, and a third on still another and so on, but when all are taken together, they

should so counterbalance each other that the system as a whole cannot conspicuously be unjust. This is the interpretation that should be given to what is called equitable Taxation.

### (3) The Canon of Certainty.

The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the amount to be paid, ought all to be clear and plain to the contributor, and to every other person.

Where it is otherwise, every person subject to the tax is put, more or less, in the power of the tax gatherer, who can either aggravate the tax upon any obnoxious contributor or extort by the terror of such aggravation, some present or perquisite to himself. The uncertainty of taxation encourages insolence and favours corruption.

#### (4) The Canon of Convenience.

Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.

### Forms of Taxes.

Various forms have been propounded in the past and some are given below :—

A tax may be

1. Proportional or progressive
2. Direct or Indirect
3. Specific or ad valorem
4. Light or heavy

Let us consider each of these forms one by one.

#### (1) Proportional or Progressive.

If A's wealth is estimated at Rs. 100 and B's wealth at Rs. 1,000, ought B to pay



just ten times as much or ought he to pay more than ten times as A. The point, on which answer depends, is whether the sacrifice of Rs. 10 on the part of B is equal to or less than the sacrifice of Re. 1 on the part of A. The tax would be proportional if B pays ten times as much as A and it would be progressive if B would give to the Government more than ten times of what A gives. The belief in the justice of progressive principle is widely held, as the sacrifice of poor men is comparatively great when they pay a tax in proportion to rich men.

## (2) Direct or Indirect.

By direct taxes are meant those, which are paid to the Government by the people, who themselves bear the burden of loss involved in the payment. By indirect taxes are meant those, the burden of which is

borne by those, who do not themselves make the actual payment to the Government. An income tax paid by a Government servant, or any other person, is a direct tax while a customs duty paid by a merchant is an indirect tax because the income-tax is paid by the servant himself while the merchant though he pays the customs duty, ultimately indemnifies himself by raising the price of the goods and making the buyer of his goods pay. The direct tax is usually very easily levied and very simply calculated. The person taxed knows exactly how much he has to pay and to whom. He pays the proper amount to the proper person and the whole thing is over. The indirect tax on the other hand tends to escape the notice of the consumer who is the ultimate tax payer and the burden imposed is more or less concealed.

### (3) Specific or Ad Valorem.

A tax is said to be specific when a commodity is taxed so much per unit, and it is said to be ad valorem when the tax is levied as a percentage of the estimated value of the particular goods.

The great advantage of specific form of duties lies in the economy of collection. Expert valuers are not required at the customs houses, the task of officials is limited to that of ascertaining the amount, and not the qualities of the goods, which they have to handle. Moreover, the traders and other dealers are never in doubt as to the duties that they will be called upon to pay, and so are never subjected to the inconvenience, to which uncertainty as to what charges they will have to meet, is liable.

The specific duty suits well, where raw

material is brought in large quantities, but an ad valorem duty is a necessity where manufactured goods, for example, clothing and machinery are imported. In case of these a definite amount cannot be charged unless a schedule be drawn up enumerating many thousands of articles and even then that schedule would require a continual revision as prices change and new types get introduced.

#### (4) Light or Heavy.

As a matter of general principle the tax should always be light, as light as possible, but there are certain things which are harmful to mankind and so their consumption is taxed as heavily as possible in order to divert the consumption. Take an illustration. The tax on a necessity for life, for example, salt, is, and ought to be very light, while a tax on intoxicating drugs

should be as heavy as possible in order to control its consumption.

To recapitulate, the taxes might take one of the following forms:—

They may be proportional or progressive, direct or indirect, specific or ad valorem, light or heavy. That form will have to be applied, which would bring into play in the best way possible the canons enumerated above.

## Articles of Taxation.

It is only when considering what is to be taxed that the theories of the form, in which taxes are to be raised, will have to be applied. A brief account of some theories of “What to tax” should not be without interest.

### (1) Physiocratic Theory.

Physiocrats were a set of Philosophers of the old school of Economics in France

who held that land only should be taxed as it yields a return above the cost of the production.

## (2) Social Dividend Theory.

The followers of this theory say that the members of a community should contribute to the public purse in proportion to the benefits they derive from the protection of the State.

These theories have long been discarded.

The physiocratic theory cannot be accepted because land alone cannot supply the whole revenue of the Government. If it is made to do so the tax would become unequitable in as far as those persons who have no land will contribute nothing towards the expenses of the Government.

The social dividend theory cannot be allowed to be held because the people who

derive the greatest benefit from the protection of the Government are those who are poor and weak, e. g. women, children old men, ignorant men and so on. These men cannot be asked to contribute more than the well-to-do and wealthy people for the simple reason that they enjoy greater protection of the Government.

When these theories could not be made agreeable, another basis for Taxation was found and it was Faculty.

### (3) Faculty Theory.

It is theoretically a very just tax and can be expressed in the following words :

Each member of a community should contribute to the income of the Government according to his faculty, that is, he should serve the Government in the Degree in which he has the ability to serve himself.

In order to understand this, let us con-

template a primitive community, where occupations are few, industries simple, members of the society nearly all on one level, and the wants of the Government limited. Suppose now a work of general concern is required to be constructed; for example, a road for communication with a neighbouring settlement. What would be the rule of contribution? Can it not be at once said that all able-bodied persons should turn out and each man work according to his ability.

This then is the ideal commodity for tax. It would afford a perfectly satisfactory measure of the obligation of every citizen to contribute to the revenue of the Government. But the actual work of imposition of this tax is well nigh impossible. These are the days of industrialism. People live in the complex stage of economic life. Occupations



have multiplied, and forms of employment have become diversified. Members of society occupy innumerable different positions, and the wants of the Government are of various kinds. In these circumstances, if the Government were to call upon each member of its community by turns and to ask him to serve it in person, for a definite period of each year, the difficulties attendant on the imposition of the tax on faculty would take no time in making themselves felt. What is possible in the primitive society is very difficult to attain in its existing form. Modern statesmen have, therefore, invented taxes on three things; and they have considered these to be the most economical and equitable, and they as nearly approach a tax on faculty as possible. These three things are :—Income, Expenditure, and Property.

## Income.

Let us take income first. Income may be taken to be the sum total of the revenue of the individuals, and this income has got many different names according to the source from which it springs.

The man, who owns land, receives income in the form of Rent : the man, who labours, receives Wages : the man, who invests capital, receives Interest : the man, who organises industries, or enters into service, receives Salary : the man, who takes the risk to be incurred in the running of a business, receives Profit.

As regards Rent, the opinion is unanimous that it should be taxed.

As regards wages, the people are disposed to exempt them from taxation. Poor people would feel a tax very heavily,

and labourers are generally poor. Moreover, no tax can be said to be a just tax, which is imposed on income which is hardly or only sufficient to purchase bare necessities of life. But some people are inclined to make no exemption ; they propose a light tax on things, which are necessary for subsistence, and in a form, which the labourers will not feel.

Interest, salary and profit may be considered together and it may be said that a tax is generally levied on them, when they are received in fairly big amounts.

Income tax was first of all imposed in India in 1860. Since then it has been abolished and restored ; and it is still in force. It is not imposed on income derived from agriculture or the tenure of land. Moreover, it is graduated in such a way that the rich pay on a higher scale than those

who are only moderately well off ; the very poor being exempt altogether. It is the only direct tax imposed in India.

## Expenditure.

The second of those things which ought to be taxed is expenditure. A tax on expenditure is technically a tax on consumption. Most of the taxes on consumption fall under one or the other of two heads, customs duties and excises.

## Customs Duty.

Customs duty falls on commodities as they enter or leave the country. It is therefore imposed on imports and exports. This is an indirect tax of a convenient kind which falls on people of all classes, particularly the middle and higher classes, and has the advantage of being substantially

productive. It is levied both specifically and ad valorem. The duty on goods and manufactured articles is ad valorem but on raw material and food-grains it is specific. Of course, there are, and ought to be, special duties on articles of special consequence, but the general rule quoted above is applicable in almost all ordinary cases.

### Excise.

Excise may be defined as a tax levied within a country on commodities destined for consumption. Articles, which are regarded as necessities, and which naturally have, or can have, a wide consumption are sometimes taxed in order to obtain large revenues. A tax on salt in India is an example.

The salt tax in India is the only tax, which must be paid even by the poorest

classes. The revenue is derived partly from a tax on imported salt, and partly by an excise duty on salt manufactured in the country, either by licensed factories or by a Government monopoly.

But heavy duties are charged on articles of luxury and it is intoxicating liquors and drugs to which special reference will be made here. The use of intoxicants becomes a fixed habit with large masses of people, and an excise is imposed on them which yields a good income.

The Excise Revenue of British India is derived from the manufacture and sale of intoxicating liquors, hemp drugs and opium. These are commodities, the use of which must be restrained within reasonable limits in the interests of the people themselves. *Each of these items will now be considered in some detail.*

## (1) Intoxicating Liquors.

The normal excise system is to grant contract of the right of the wholesale supply, impose a still head duty on every gallon issued and then to sell by auction the right of retail vend. By these means the danger of unrestricted competition for the supply of intoxicating drugs, and the attendant difficulty of proper supervision are avoided, while the largest possible part of the monopoly profits arising from these restrictions is secured to the Government.

## (2) Opium.

In British India the Government prescribes rules for the cultivation of the poppy, the manufacture, possession, transport, import or export and sale of opium, and any contravention of such rules is subject to stringent penalties. Opium is also produced

in certain Indian States, and is known as Malwa opium; and on this a very heavy export duty is paid.

The excise revenue derived from opium is mainly composed of duty and vend fees :\*

### (3) Hemp Drugs.

The narcotic products of the hemp plant consumed in India fall under three categories :

Ganja.

Charas and

Bhang.

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\* There has been in the past a very considerable export of opium to China, the proceeds of which have brought in a large income to the Indian Government. In 1906, the Chinese authorities, being aware of the baneful results arising from the large consumption of opium by the Chinese asked the British Government for its assistance in suppressing its use. The Government of China stated its intention of checking the cultivation of the poppy within its dominions, and asked that the import of opium from India should also cease. It was arranged, therefore, that the Indian opium exports should be gradually decreased.



The plant grows wildly in many parts of India chiefly in the sub-montane tracts of the Himalayas. No attempt is made to extirpate the spontaneous growth of the hemp plant and no restriction is placed on the use of the plant in its green state. But its use as an intoxicating substance is controlled by taxation. Moreover restrictions have been imposed upon private possession and retail sale can take place only under a license.

It would thus be seen that in the case of taxes on intoxicating commodities the aim of raising a revenue is combined with that of checking consumption. This policy is necessary in order to minimise temptation for those who do not take to them and to discourage those who do. Therefore the tax upon intoxicants is as high as possible.

## Property.

The third thing proposed above for putting a tax on is property. But taxation of property by inheritance and succession duties has not been and cannot be largely resorted to in India by reason of the Hindu joint family system which vests ownership of property in the family as a whole.

Houses and properties in municipal areas are taxed by municipalities, and Judicial fees are charged, such as registration and stamp fees, when properties change hands or there is a dispute about them.\*

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\* Most Judicial documents e. g. plaints, petitions, and the like, are required to bear stamps of specific amounts. Besides these, there are many commercial transactions which are always required to be recorded in writing, for example, bonds, receipts etc. and these also must bear stamps. More important documents, including those relating to transfers of immovable property, are required to be registered, and for this a small ad valorem fee is charged.

## RECAPITULATION.

The following four rules summarise the articles that are taxed and the form the tax takes in each case :—

1. There is a tax on income beyond a certain amount, and this tax is direct. 2. There is a tax on expenditure, and this exists in the form of customs and excise duties. It is an indirect tax and is levied by specific and ad valorem fees. 3. There is a tax on property also, and this tax gives what are called House rates, Stamp and Registration fees etc.

### Taxing Authority.

It is important to know who is the taxing authority.

The highest authority which can impose taxes is the Government itself in the Legislative Department. In India, it has

delegated powers to Provincial Governments and they can also impose certain taxes.

Besides the Provincial Governments, there are three classes of local authorities, who can impose taxes namely,

1. Municipalities.
2. District and local Boards and
3. Port Trusts.

The chief sources of income of these institutions are octroi duties, cesses on agricultural land, taxes on houses and lands, water, conservancy and lighting rates, tolls on roads and ferries, taxes on animals and vehicles, and, in some places, taxes on professions and trades also.

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## PART IV

# Public Debt.

It has been said above that when the sources of fixed Revenue are exhausted Government takes to either increased taxation, or new taxation, or both ; but, when anything so extraordinary comes into existence that changes in taxation or new taxation cannot be expected to meet it, money is found for that emergency in a special way, and that way is either to make drawings from the State chest, or to float a public loan,

The practice of old Governments was to maintain a special cash reserve available for immediate application to abnormal purposes should it be needed. This could only be possible by accumulating treasure in advance, i. e. by collecting more revenue

each year than was needed. This practice is now obsolete in Governments which follow the modern system. It was very costly and it kept the treasure unused for an indefinite length of time. Modern nations have instead taken to borrowing in case of emergency.

A public debt, like a private one, does not create new wealth and it is not a short cut to prosperity. It should be resorted to only under special conditions, which stated in brief may be the following :—

1. For permanent productive investments, for example, for the construction of such Public Works as irrigation canals and railways etc.
2. For meeting an extraordinary emergency like war and

3. For covering cases of sudden temporary necessity, for example, large deficits in the expected income and so on.

### Its Forms.

Government loans are floated in many forms. Amongst the more common are :—

1. Circulating notes or paper money not bearing interest,
2. Warrants giving orders upon the Treasury to pay money and which may or may not bear interest,
3. Short time notes bearing interest,
4. Long time notes, bonds or securities.

Circulating notes issued by Government may either be redeemable or ir-redeemable.



Redeemable circulating notes are ordinarily issued, while ir-redeemable notes are taken to only as a desperate measure in times of great stress.

A warrant is a letter containing a settlement of a claim against the Government. When it is presented to the Treasury it is practically treated as a cheque, if the funds permit ; if on the other hand, the treasury is empty, the claimant has to wait till the funds flow into it. Sometimes interest is made payable on these warrants till they are redeemed.

Short time notes are generally called treasury bills, and they are a sort of promissory notes whereby the Treasury Department is put under an obligation to make certain payments in return for money borrowed by Government in order to tide over short intervals of financial stress. The

officer is technically responsible for the bill and of course the Government stands behind him and will uphold his notes.

Long time notes have a great variety of form, and the simplest perhaps is the series of notes or bonds each promising to repay a set sum of money, at the end of a term of years, and to pay interest as stipulated.

### Its Repayment.

Money borrowed should ordinarily be repaid unless it is used for a productive purpose and the return of its use is greater than the interest, which the Government has to pay, in which case the loan may stand on as a permanent debt and the Government will be no worse for it. All other debts are temporary and someday the payment has got to be made. The best

way of redeeming public debts is to arrange a sinking fund. Provision should every year be made by setting aside a portion of annual income for the accumulation of a fund, which would, when the time arrives, be made available to the payment of the debt.

Sometimes repayment is also made by conversion i. e. by converting the debt from one form to another.

SUMMARY. We have now seen that the Government determines its expenditure first and then raises its income to a figure sufficiently high to meet the expenditure and to leave a small surplus behind. This is done first by raising the rate of existing taxes and imposing new taxes but if it is not possible to meet the whole demand of the Government by this method, a loan is raised and the Government is put in funds

in order to meet all its needs. Now the only, and perhaps the most important, point that remains for consideration is the task of actual adjustment of income and expenditure and going according to it, or in other words, financial administration. The adjustment takes place every year in the Budget and the work of the Government is regulated by its execution according to set rules. We will consider now the Budget and its execution in the next part of this book.



## PART V

### Budget.

The budget is an annual statement of the adjustment of expenditure and income of a State prepared by the public authorities. It includes a statement of Receipts and Expenditure of a previous year and an estimate of the expenditure and receipts of the ensuing financial year and proposals as to the ways and means for meeting a deficit if any and creating a small surplus of revenue on outlay.

### Its Preparation.

Sometime before the fiscal year begins (dates being different in different countries and in British India it is 1st of April) various heads of departments of the Government prepare their estimates of

expenditure and income. These estimates contain the actual income and expenditure of the previous year, and revised estimates of the income and expenditure of the running year, and the estimate of income and expenditure of the ensuing year. If there are any increases or decreases explanations are rendered therein and comparisons made.

The departments then forward these to the Finance Department, where all the estimates undergo a careful scrutiny. The new demands are carefully considered, and proposals are made for finding ways and means for meeting them, or such of them as are held to be necessary. The Finance Department then prepares on their basis an estimate of its own, in which the expenditure of the whole State and the calculated receipts from each source of

revenue are classified under certain heads. The budget is then ready for presentation.

### Its Sanction.

When the budget is prepared it is submitted to the Supreme Authority of the Government with a brief but clear statement of what the expenditure will be, what it is expected the revenue will be, what taxes may be remitted or changed, and what new taxes if any are needed in order to make the revenue equal the expenditure.

Such Supreme Authority may be Parliament, Legislative Assembly, a Viceroy or a Prince himself. Then follows discussion on the budget and consideration on various points dealt with in it. Usually, but by no means always, the proposals may be accepted. Consideration of the budget is one of the principal tasks of the Supreme Authority, and it involves the study of a great number



of detailed points which must occupy a great deal of time and in certain cases may give rise to controversies and disputes. Decision is after all arrived at after considering the question from various points of view and sanction is then accorded after making modifications if any appear necessary.

### Its Execution.

When the budget has been sanctioned, adequate machinery is required in order to give effect to it or to bring it into execution. The efficacy of the working of the Government really depends upon how the budget is executed. The execution includes :—

- (a) Collection of the Revenue to the nearest amount estimated,
- (b) Deposits of the collections into the Treasury and its working on sound financial lines,

- (c) Laying out of the methods of expenditure,
- (d) Maintenance of control over expenditure,
- (e) Preparing accounts and
- (f) Subjecting both income and expenditure to careful audit.

These six ingredients constituting the execution of the budget will now be taken up one by one and dealt with in some detail.

### (a) Collection of Revenue.

In the early days of society the collection of Government dues was comparatively a very simple matter, but as civilisation advanced matters became different and the revenue began to be farmed. The farmers made exactions, which caused loss to the Treasury in the long run and frequent

hardship to the people. The civilised Governments therefore now appoint Collectors, and give them an organised and efficient staff to help them in their business, which is first to determine what are the dues of Government, and then to collect them with as little hardship as possible to the tax-payers.

### (b) Treasury.

For purposes of administration a country is usually divided into a number of districts and at the head-quarters of each district there is usually a Government Treasury. The Treasury is the place where the whole of the public receipts are deposited. It is important at this place to understand how a Treasury works and below is given a short account of the working of a Treasury in British India. The Treasury staff consists of :—

- (1) The officer of the district (a Collector or a Deputy Commissioner),
- (2) A Treasury Officer generally a Deputy Collector,
- (3) A Treasurer,
- (4) An Accountant,
- (5) Necessary clerks, money testers, peons etc.,
- (6) An armed Police Guard.

The District Officer is in general charge of the Treasury and may well be taken to be personally responsible for its administration. He, however, takes no part in the daily transactions of the Treasury, which are conducted by the Treasury Officer. The cash and other valuable things are kept under the charge of a Treasurer, who has always to give a security, and the Accountant keeps the accounts.

The treasury building usually contains a counter at which money is received, and there is always a strong room in charge of an armed Police Guard, where cash and other valuables are stored and secured under double locks, one key remaining with the Treasury Officer and the other with the Treasurer himself,

When the treasury opens, both the Treasury Officer and the Treasurer must be present. The locks and seals of the gates of the strong room are made over intact by the guard and then the strong room is opened, each officer using his own key. Cash and Currency Notes are taken out in necessary amounts and made over to the Treasurer and entered in his account. The strong room is then again double locked. The treasury is now open to enter into transactions with any one wishing to deal

with it, and if any man has occasion to pay money into the treasury he first procures for himself a document called a challan, which is available at the treasury. It is usually in duplicate, one copy to serve eventually as a receipt and the other to be put on record in the treasury. In the challan are entered the nature of the payment as well as the person or officer on whose account it is made and if necessary these entries are checked, passed, and recorded, by the Revenue Department concerned. The challan is then taken to the Accountant, who, if it is in order, signs his initials over it, and directs the presenter to take it with money to the treasurer, who satisfying himself that the Accountant has initialled it, tests and counts the money, enters the transactions in his account, and signs both copies of challan in token

that he has received the money. The presenter then has to take the challan back to the Accountant, who on the strength of the Treasurer's signature enters the transaction in his account, and puts his signature on one copy of the challan, which is then handed over to presenter and thus forms a full acquittance. In the case of large sums the Treasury Officer also signs the receipt.

### (C) Expenditure.

Now it should be seen how the Government makes payments or in other words enters into expenditure. When payment has to be made a bill is presented in a prescribed form, which is examined by the Accountant. If it is regular, he enters it into his account book and puts it before Treasury Officer, who, if he finds it in order, passes an order on it for payment. It is then passed on to the Treasurer, who

then makes the payment and enters it in his account. The payee has then to sign receipt on the bill which is then stamped (paid) and retained by the Treasurer. \*

### (D) Control.

Special care is required to be taken that expenditure incurred is an authorised expenditure. An expenditure is said to be authorised when it has met with two requirements. The one is that the administrative officer, having powers to order that expenditure, has sanctioned that amount, and the other is that there is a provision in the budget and the required expenditure does not go beyond the allotment made in the budget.

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\* In the case of certain large Departments *vis.* Railways Military, Forests, Posts, Telegraphs and Public Works, deposits and payments are not made into or by the treasuries. Lump sums are drawn from the treasuries by the departments concerned and the transactions are then made by the departmental offices.



The expenditure is thus kept in control and the head of the department keeps a keen watch to see that the authorised amounts are not exceeded.

### (E) Accounts.

It has been seen above how transactions are carried on at Government Treasury. At the end of the day the Treasury is closed and the process of compiling accounts begins.

The Accountant sums up and closes his books and prepares a balance sheet in a prescribed form. The Treasury Officer also checks the Cash Book comparing each entry of Receipt and expenditure with challans and vouchers and verifies the totals.

The Treasurer in the meantime sums up both sides of his Cash Book and draws up a balance memorandum.

If the result in the two balance sheets agree the Treasury Officer signs both Cash Books and both balance sheets and the accounts for the day are then closed. \*

The working of the Treasury proceeds in this way from day to day, and the process is completed by the cash present in the treasury on the last day of the month being counted in detail by the District Officer himself.

The receipts and payments made at the treasury are then computed into monthly accounts. These are written up daily, and the vouchers and challans are day by day numbered, arranged, and put away under lock and key. These monthly lists of receipts and payments are then submitted

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\* The Treasury Officer then verifies the Cash in the hands of the Treasurer as shown in his balance memorandum and together with Treasurer locks it up under locks in the strong room which is then left for the night in charge of the Guard.

to the Accountant General (in the case of Provinces and to Comptroller-General of Accounts in the case of the Central Government) prepared in a particular form which is in conformity with the heads of accounts prepared according to the budget heads. This officer gets in his office each item of receipt and payment, classified under the head of accounts to which it belongs, and this process is carried out in great detail—every item of receipt and payment being eventually most carefully and minutely differentiated and classified. He then compiles one consolidated monthly account and thus month by month the receipts and expenditure are computed. At the end of the year an yearly account is made from them and it is then presented to the authorities concerned.

It will be seen from what has been

said above that there are four stages of compilation :

1. The daily accounts at the district treasuries.
2. The monthly returns compiled from them.
3. The monthly compilation by the Accountants General of the various Provinces or by the Comptroller General of Accounts.
4. The yearly compilation by the same officer.

In this way the transactions begun at the various District Treasuries throughout India are ultimately entered into consolidated accounts.

## Audit

The purpose of audit is to obtain

satisfaction that the account rendered represents the exact state of affairs.

The main object as regards receipts is to see that all sums receiptable are duly received and recorded by the proper officer.

As regards payment, it is to see that the expenditure is duly authorised, acknowledged and recorded.

## Audit of Receipts.

It will be seen that all audit of receipts divides itself into two functions :

1. That of seeing that all sums due are received or checked against demand and
2. That of seeing that all sums received are brought to credit of Government in the accounts.

A Government demand in India is always entered in a register, and the receipts

or the satisfaction of it are checked and entered against it and thus the demand, if it remains unsatisfied, is made clear to the authorities concerned.

The second function of audit in regard to receipts, is to see that all sums received in the treasury are credited in the accounts. The task is, therefore, to see that all sums of money paid into the Government Treasuries are credited by the Treasury Staff in their accounts. The greatest safeguard to this end is the printed receipt which has to be given for all payments into the Treasury.

## Audit of Expenditure.

The audit of expenditure is much more elaborate, and the first duty of audit is to ascertain that the initial records of the Treasury represent the actual state of affairs.

Every Government payment is made on a document called a voucher, which gives the amount, nature, and the period of payment, and all the other details necessary for complete identification. It also contains an acknowledgment by a person, to whom the payment is made. It is the duty of the authorities concerned to see that for every payment there is a voucher in proper form, properly drawn up, arithmetically correct, and receipted by the proper person. This check is made in the first instance at the Treasuries and is known as Preaudit. The Treasury Officer satisfies himself and has to satisfy the authorities concerned that the claim was covered by orders, that the voucher was in proper form and properly drawn up, that it was signed, and if necessary countersigned, by the proper officer, that it was stamped if necessary,

that the arithmetical calculations were correct, that the amount was entered in words as well as in figures, that there were no erasures, and that all corrections and alterations were attested by the drawing officer. The most important feature is that this audit is applied before payment, and it prevents irregular payments.

When the payment has been made, audit in the account office follows, which is known as Post audit. The important points, to which the auditor devotes his attention, are :

1. That payment has been so acknowledged and recorded that a second claim against Government, on the same account, is impossible,

2. That so far as possible, the



payment made has been to the proper person.

3. That the vouchers are in the prescribed form and they are duly receipted by the payee in original.

The auditor has further to see that each item of expenditure has been sanctioned by the authority, having power to sanction such expenditure, and that it is covered by a grant in the budgets and is not in excess of it.

## Revised Estimate & Reappropriation.

During the process of a financial year it may sometimes be found that the grants under some heads are insufficient while under others they are unnecessarily high. The estimates are then revised and the former are then supplemented by re-appro-

priations from the latter and thus the expenditure on the whole is kept within the limits set at the time of sanctioning the budget.

RECAPITULATION. Of all the branches of administration, that of the finance is the most difficult to deal with. The old system of adjusting expenditure to income has given place to the new, and more complex, system of determining the expenditure first, and then raising the income sufficiently to cover the expenditure and leave a moderate surplus behind. Expenditure has been classified as primary and secondary. The former embraces all those budget heads, which are necessary to be provided for in order to make existence possible, while the latter includes all other heads, some of which are as important as those of the first

differing from them only in the technical assignment of place.

The income of a State has been classified under four heads and that from taxation being very important and full of technicalities, has been given a more elaborate description than others.

When an emergency of an extraordinary nature comes into existence a public loan is necessary to be raised. Cautions against abuses in raising loans, their forms and repayments have been discussed.

Then has followed Financial Administration, the most important and the practical part of the question of public Finance. Herein are discussed the budget, its preparation, sanction and execution. Revised estimates and reappropriations have also been noticed.

THE END.

## List of Books Consulted.

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  14. Imperial Gazetteer of India  
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